

Members:

Sen. Tom Weatherwax, Chairperson
Sen. Richard Young
Sen. James Merritt
Sen. Katie Wolf
Rep. Markt Lytle
Rep. Claire Leuck
Rep. James Buck
Rep. William Friend

Advisory Members:

Herschel Cook
David Butterfield
Barbara Haas
Karen Large
Howard Hatcher
William Goffinet
James Murphy
Judith Anderson
Eugene Hostettler
Stephen Queior
David Bennett
Michael Claytor

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LOCAL GOVERNMENT FINANCE STUDY COMMISSION

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MEETING MINUTES

Meeting Date: September 15, 1998
Meeting Time: 10:00 A.M.
Meeting Place: State House, 200 W. Washington St.,
Room 431
Meeting City: Indianapolis, Indiana
Meeting Number: 3

Members Present: Sen. Thomas Weatherwax, Chairperson; Sen. James Merritt; Sen. Katie Wolf; Sen. Richard Young; Rep. Claire Leuck; Rep. James Buck; Rep. William Friend; Michael Claytor.

Members Absent: Rep. Markt Lytle; Herschel Cook; David Butterfield; Barbara Haas; Karen Large; Howard Hatcher; William Goffinet; James Murphy; Eugene Hostettler; Stephen Queior; David Bennett; Judith Anderson.

I. Introduction

Senator Tom Weatherwax, Chairman of the Commission, convened the third meeting of the Commission at 10:15 a.m.

Senator Weatherwax stated that the meeting would primarily be concerned with property taxation. He commented that some of the issues related to property taxation and property tax controls are often controversial, but he hoped that the Commission would nevertheless address those issues.

II. Property Tax Controls

Senator Weatherwax then recognized Mr. Don Coover, the Chairman of the Committee to Restore Indiana Property Tax Controls ("CRIPTC"). Mr. Coover began his testimony by noting that there has been disproportionate growth in property taxes compared to other major Indiana taxes. He also stated that over the past 25 years there have been numerous attempts to limit or in some way replace property taxes, but these reforms have been temporary and did not address the structural problems of Indiana's property tax system.

According to Mr. Coover, the following structural problems have led to excessive growth in property taxes:

- (1) Most units of local government determine their budgets first and then determine the property tax rates need to furnish the revenue necessary for those budgets. The minimum increase of 5% in civil units' maximum levies makes this problem even worse.
- (2) An increase in most other taxes requires a public vote on a rate increase, but property tax growth can occur without votes by elected officials in public forums.
- (3) Because of the number of taxing units and the complexity of the budget-making process and the property tax levy limits, it is difficult for citizens to participate in a meaningful way.
- (4) Many of the property tax notices, forms, and bills are difficult for an ordinary taxpayer to understand.

Mr. Coover stated that these structural issues must be addressed before meaningful property tax controls can be implemented. He noted that a property tax reform bill supported by CRIPTC had been passed by the Senate during a previous session of the General Assembly.

Mr. Coover then suggested that the following changes should be made to Indiana's property tax system:

- (1) The budgets of local governments should be based on available revenue, rather than having the revenue determined by the budget that is adopted.
- (2) The statutory property tax levy limits should be replaced by a local control board that has the authority to approve or deny any proposed property tax rate increases for civil units in the county. The local control board for each county would consist of various elected officials from that county. Because of the political accountability inherent under such a system, a tax rate increase would

be approved only if it had the support of the taxpayers.

(3) All property tax notices, forms, and bills should be standardized and made easier to understand.

(4) The State Board of Tax Commissioners should maintain a comprehensive and up-to-date database of assessed values, rates, and levies for all governmental units. This is necessary for the adequate review of local government finance.

(5) The General Assembly should adopt a mandate-funding statute that requires the state to fund any local government tax increase caused by a state law or rule.

Mr. Coover noted that in Illinois the property tax notices show both the annual increase in the amount of property taxes owed and where the taxes will be spent. He stated that this type of information leads to greater citizen involvement in local government finance decisions. He also commented that these changes would increase the pressure for consistent assessments, require more justification for abatements, and increase the pressure for consolidation of some local government units.

Mr. Coover stated that in addition to structural reforms of Indiana's property tax system, entire levies should be moved from local property tax funding to state funding. He said that it would be logical to move levies for school general funds, county welfare, township poor relief, and school transportation to state funding, because expenditures for those funds are subject to state laws and regulations.

Senator Weatherwax commented that the local control board structure described by Mr. Coover would give local government authority and responsibility in matters of local government finance. He stated that there have been proposals to amend the current property tax controls to limit the growth in property tax levies to either 3% or the rate of inflation, but that these proposals are not the ultimate solution because they take authority away from local governments.

Senator Richard Young commented that in his experience county councils and other local officials took their budgeting responsibilities very seriously and had a detailed understanding of local finances. He stated that greater standardization of property tax notices and other forms is needed, but that he did not see as much confusion among taxpayers as Mr. Coover had suggested. Mr. Coover agreed that most county officials do have an understanding of the budgeting process, but he suggested that the decisions of many other taxing districts could be funneled together to streamline the process. Senator Young responded that certain boards, such as a library board or a school board, would have greater knowledge of their district's needs. He questioned whether the local control board described by Mr. Coover would have that level of

expertise.

Representative Jim Buck asked Mr. Coovert whether some local government functions should be funded through local taxes other than property taxes. Mr. Coovert replied that it should be considered.

Representative Claire Leuck asked Mr. Coovert who would sit on the local control boards proposed by CRIPTC. Mr. Coovert answered that the board would consist of certain elected officials within the county, such as a county council member, a city council member, a school board member, and others. Senator Katie Wolf asked whether CRIPTC's proposal had been brought before the Citizens' Commission on Taxation appointed by the Governor. Mr. Coovert answered that he had made a presentation to that commission.¹

Senator Weatherwax then recognized Mr. Kevin Brinegar, representing the Indiana Chamber of Commerce. Mr. Brinegar stated that the Indiana Chamber of Commerce supported the CRIPTC proposal. He said that property taxes are the fastest growing source of revenue, and he explained that in real terms Indiana property taxes are greater now than they were before the 1973 reforms. He also commented that Indiana is one of only ten states that imposes a property tax on inventory.

Mr. Brinegar referred to a Ball State University study examining what would occur if Indiana shifted \$1 billion from property taxes to sales taxes. According to Mr. Brinegar, the study showed that within five years state gross domestic product would increase \$560 million, tax revenue would increase \$47 million, and employment would increase by more than 5,000 jobs.

Mr. Brinegar stated that there were two ways to deal with the negative effects property taxes have on economic growth: (1) limits could be placed on the growth in property taxes; and (2) the funding of certain governmental functions could be taken off property taxes. He said that by the 1980s the property tax controls of 1973 had been eroded, causing property taxes to be as high as they were before the controls were instituted, with an additional burden from the various local income taxes. Mr. Brinegar said that if property tax levies were lowered or limited to a certain percentage, the amount of those levies would creep back up over time. He suggested that it would be politically more difficult to reimpose a property tax levy that had been repealed. He also stated that even if the structural flaws of the property tax system are not addressed, the 5% minimum growth in the property tax control statutes should be lowered and then somehow indexed to inflation.

¹Copies of Mr. Coovert's prepared statement are on file in the Legislative Information Center, Room 230, State House, Indianapolis, Indiana 46204. The telephone number of the Legislative Information Center is (317) 232-9856.

Representative Leuck commented that property taxes imposed on members of the farm community are not tied to their ability to pay, but that local income taxes are related to their ability to pay.

III. Taxation of Rolling Stock; Distribution of Tax Proceeds

Senator Weatherwax introduced the Commission's next topic by explaining that the property tax paid on rolling stock, the indefinite-situs tax, is distributed to the South Shore Railroad. Senator Weatherwax noted that interested parties had been meeting on this issue, because the indefinite-situs tax created an economic disincentive that hurt businesses that repair railroad cars and also because the funding of the South Shore Railroad was a state responsibility. Senator Weatherwax explained that because the tax makes it more expensive for railroad cars to come to Indiana for maintenance, maintenance facilities are less likely to expand and increase employment.

Senator Weatherwax recognized Representative Earl Harris, who described the importance of the South Shore Railroad to northern Indiana. Representative Harris stated that the goals of the parties who have been discussing the issue are: (1) diminishing the economic disincentive from the indefinite-situs tax; and (2) ensuring the continued operation of the South Shore Railroad. Representative Harris introduced Mr. Rex Richards of the East Chicago Chamber of Commerce; Mr. Gerald Hanas, the General Manager of the South Shore Railroad; and Mr. Zwartz, representing the Union Tank Car Company.

Mr. Hanas stated that railroad car companies are challenging Indiana's indefinite-situs tax under the federal "4R Act", which governs property taxation of railroads. He said that the interested parties were discussing shifting the funding of the South Shore Railroad from the situs tax to a very small percentage of the state sales tax. Representative Harris noted that this approach was designed in part to protect the funding of the South Shore Railroad if the litigation challenging the tax succeeded. Mr. Zwartz commented that no other state has an indefinite- situs tax that has the same impact as Indiana's on the number of railroad cars that come into the state. He suggested that in order to lower the disincentive, some type of a property tax credit should be established for railroad car maintenance facilities.

Senator Weatherwax explained that the parties affected by these problems would continue to meet to try to come up with a solution, but that he had wanted to make other Commission members aware of the issue.

IV. Property Taxation of Inventory

Senator Weatherwax then discussed two preliminary drafts concerning property taxation of inventory. The first draft, PD 3050, would phase-in over ten years a credit against state taxes for property taxes paid by the taxpayer. The second draft, a proposed joint resolution, would amend the Indiana Constitution to allow (but not require) the General Assembly to enact a law exempting inventory from property taxation. Senator Weatherwax stated that these changes in state law and in the Indiana Constitution would have positive effects on Indiana's economic development.

Representative William Friend stated that he supported both concepts, and he said that addressing the inventory tax was one of the best things that the Commission could do. He said that it was a positive use of the State's surplus revenue. He also noted that because the credit was phased-in over ten years there would be sufficient time to see the economic impact of the credit.

Representative Buck stated that such a credit would lead to increased economic growth, which would translate into more state revenue that within five to ten years would make up the revenue lost due to the credit.

Senator Wolf stated that the Farm Preservation Task Force is interested in addressing the same issue. She commented that the farming community would generally be supportive of such a credit.

Mr. Michael Claytor, a lay member of the Commission, commented that Indiana is a low-tax state, but that the inventory tax does hurt economic development. He stated that a credit for inventory taxes paid would be a good selling point for out-of-state entities making economic development decisions.

Representative Friend moved that the Commission recommend PD 3050 to the General Assembly. Representative Leuck seconded the motion. The Commission members voted 6-0 to officially recommend the draft (with Senators Weatherwax, Merritt, and Wolf and Representatives Buck, Friend, and Leuck voting to recommend the draft).

Representative Buck then commented that the proposed joint resolution being reviewed by the Commission would allow, but not require, the General Assembly to enact a law exempting inventory from property taxation. He stated that he would prefer amending the Indiana Constitution to prohibit property taxes from being imposed on inventory. Senator Weatherwax stated that the concept of amending the Indiana Constitution to give the General Assembly the discretion to exempt inventory had broader political acceptance.

Senator Jim Merritt moved that the Commission recommend the proposed joint

resolution to amend the Indiana Constitution to allow the General Assembly to exempt inventory from property taxes. Senator Wolf seconded the motion. The Commission members voted 6-0 to officially recommend the proposed joint resolution (with Senators Weatherwax, Merritt, and Wolf and Representatives Buck, Friend, and Leuck voting to recommend the resolution).²

V. Other Business

Representative Friend noted that Ms. Karen Large, a member of the Commission, had requested that the Commission review the manner in which estimates of county adjusted gross income tax and county option income tax distributions are determined by the State. Representative Buck said that he hoped the Commission would receive testimony from the Indiana Department of Revenue concerning the level of compliance with school district information requirements on individual income tax forms.

Senator Weatherwax then adjourned the meeting.

²Copies of PD 3050 and the Proposed Joint Resolution are on file in the Legislative Information Center. See footnote 1.